

Boards	Mtg Date	Item #
TR	6/19/2003	5
WR	6/19/2003	4
ETF	6/20/2003	3

**STATE OF WISCONSIN  
DEPARTMENT OF EMPLOYEE TRUST FUNDS  
801 West Badger Road  
Madison, WI 53702**

**CORRESPONDENCE MEMORANDUM**

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**DATE:** May 23, 2003

**TO:** Employee Trust Funds Board  
Teachers Retirement Board  
Wisconsin Retirement Board

**FROM:** Linda Owen, Policy Analyst  
Division of Retirement Services

**SUBJECT:** Proposed Rule Amendment Regarding Annuitant Dividends

The Department requests the Boards' approval of the proposed amendment to the rule governing annuitant dividends. The proposed amendment would return the date that annual annuity dividends are effective to the May 1 payment.

In 2002 the rule was amended to change the annuitant dividend distribution date from April 1 (reflected on the May 1 annuity payments) to March 1 (reflected on the April 1 payments). Several annuitant groups had requested that the dividends be distributed as early as possible in the year, and the purpose of the amendment was to get the annual dividend increases into the annuitants' hands one month sooner.

The amended rule became effective on October 1, 2002, and this year the dividend was to be distributed one month earlier for the first time. However, due to the poor fixed and variable investment returns in 2002, there was no fixed dividend this year and a 27% variable annuity decrease. Annuitants consequently expressed considerable concern about the earlier dividend date, and due to the harm that the earlier date would have caused to annuitants and the difficulty staff encountered in explaining the rule, an emergency rule was promulgated to move the dividend distribution date back to the May 1 payment. However, the emergency rule applied only to the 2003 dividend. **If no further action is taken on the permanent rule, in 2004 the dividends, whether positive or negative, will become effective on the April 1 payments.**

Based on careful consideration of the alternatives and their potential consequences, the Department is proposing to amend the permanent administrative rule to change the annual dividend distribution date back to the May 1 payments. The May 23, 2003, memorandum from Julie Reneau outlines in detail the options being presented by the Department. Amending an administrative rule can take nearly a year because of all the steps that are legally required, and each board approved the scope statement for this proposed amendment at the March meetings. To assure that the amended rule can be in force before March of 2004, the Department needs the boards' approval to continue promulgating the proposed change.

## TEXT OF PROPOSED RULE AMENDMENT

SECTION 1. ETF 20.25 (1) (a) is amended to read:

**ETF 20.25 (1) (a)** Except as otherwise provided in Par. (b), a fixed annuity dividend, as recommended by the actuary and approved by the chair of the employee trust funds board and the department's secretary, shall be distributed based on each December 31 valuation as specified in s. 40.27 (2), Stats. The dividend shall be effective on the ~~March~~ April 1 following the valuation date and shall apply to fixed annuities effective on or prior to the date of the valuation. As authorized under s. 40.27 (2) (b), Stats., different percentages shall be determined for annuities effective for less than a full year on the valuation date. The percentages shall be determined by multiplying the number of full months the annuity was in force times the percentage change applicable to annuities effective for the full year, dividing the result by 12 and rounding the answer to the nearest tenth of a percent. No increase shall be applied to any annuity for which the resulting increase would be less than one-tenth of a percent.

SECTION 2. ETF 20.25 (2) is amended to read:

**ETF 20.25 (2)** Variable annuity changes, as recommended by the actuary and approved by the secretary, shall be made based on each December 31 valuation as specified in s. 40.28 (2), Stats. The changes shall be effective on the ~~March~~ April 1 following the valuation and shall apply to variable annuities effective on or prior to the date of the valuation, regardless of whether the annuity becomes a fixed annuity in the following year.